

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05  
CEA-01 DODE-00 PA-01 PRS-01 AGRE-00 /093 W  
-----108075 201911Z /46

R 201718Z DEC 77  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 9371  
TREAS DEPT WASHDC  
INFO AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMCONSUL MILAN  
AMCONSUL NAPLES  
AMEMBASSY PARIS  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO

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PASS FRB; BRUSSELS FOR USEC; PARIS FOR USOECD

E.O. 11652: N/A  
TAGS: EFIN, IT  
SUBJECT: ITALIAN FINANCIAL MARKET DEVELOPMENTS (77-8)

1. INTERNATIONAL TRANSACTIONS OF ITALIAN MONETARY  
INSTITUTIONS IN NOVEMBER INDICATE A SMALL OVERALL BALANCE  
OF PAYMENTS SURPLUS OF \$37 MILLION, WHICH IS DOWN  
CONSIDERABLY FROM THE MONTHLY SURPLUSES OF ABOUT A  
BILLION DOLLARS DURING JULY-OCTOBER PERIOD. IN  
NOVEMBER, ITALIAN COMMERCIAL BANKS RESUMED THEIR SHORT-  
TERM BORROWING ABROAD. THEIR NET FOREIGN DEBTOR POSITION,  
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WHICH WAS STABLE DURING AUGUST-OCTOBER, INCREASED BY \$650  
MILLION TO \$7.2 BILLION. OFFICIAL FOREIGN EXCHANGE  
RESERVES ALSO INCREASED BY AN AMOUNT ABOUT EQUAL TO  
THE BANKS' BORROWINGS ABROAD, REACHING \$8.1 BILLION AT  
END-NOVEMBER (TABLES 1 AND 2). THE RELATIVE WEAKNESS  
OF THE DOLLAR IN NOVEMBER, COMBINED WITH THE CONTINU-  
ATIONS OF RELATIVELY HIGH NOMINAL INTEREST RATES IN

ITALY, PROBABLY CAUSED THIS RESUMPTION OF FOREIGN BORROWING (TABLE 4).

2. RECENTLY RELEASED MERCHANDISE TRADE DATA ON AN EXCHANGE TRANSACTIONS BASIS (AS COMPARED TO CUSTOMS BASIS), POINTS TO A NET INFLOW OF COMMERCIAL CREDIT IN THE THIRD QUARTER, WHICH WOULD BE A REVERSAL OF THE FIRST HALF TREND WHEN ITALY RECORDED A NET OUTFLOW OF ABOUT A BILLION DOLLARS ON COMMERCIAL CREDIT, ATTRIBUTABLE MAINLY TO REPAYMENT OF IMPORT CREDITS IN THE FIRST QUARTER OF THE YEAR. IN THE THIRD QUARTER, PRELIMINARY DATA INDICATE ADVANCE PAYMENTS OF ABOUT \$750 MILLION FOR ITALIAN EXPORTS; NET COMMERCIAL CREDIT INFLOW COULD BE ON THE ORDER OF \$500 MILLION.

3. DEVELOPMENTS IN DECEMBER, HOWEVER, SEEM LESS FAVORABLE TOWARD POSITIVE LEADS AND LAGS IN THE CAPITAL ACCOUNT AND SHORT-TERM BORROWING BY THE BANKS. ALTHOUGH THE LIRA/DOLLAR SPOT RATE MAY HOLD FAIRLY STEADY, SEASONAL AND CYCLICAL FACTORS HAVE ERODED ITS UNDERLYING STRENGTH, AND THE OUTLOOK FOR STABILITY IS LESS FAVORABLE NOW THAN IT WAS JUST A FEW WEEKS AGO. THE LIRA HAS RECENTLY DEPRECIATED SHARPLY ON THE FORWARD MARKET, A REFLECTION OF INCREASED ANTICIPATED DEPRECIATION. THE PRIME RATE, ON THE OTHER HAND, WAS REDUCED IN DECEMBER BY 1 PERCENT TO 16 LIMITED OFFICIAL USE

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PERCENT (15.5 ON SECURED LOANS, EMG., EXPORT CREDITS) FROM 17 PERCENT. THESE DEVELOPMENTS DURING DECEMBER ARE FACTORS IN FAVOR OF BORROWING DOMESTICALLY RATHER THAN ABROAD (TABLE 4).

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## 4. TABLE 1 - MONETARY MOVEMENTS 1) (MILLIONS OF DOLLARS)

OCT 1-31 NOV 1-30 JAN 1-NOV 30

BOI/UIC

GOLD	-	-	1,028.2
CONV. FOR. EM.	939.3	636.0	5,016.4
OTHER	50.	52.5	45.9
TOTAL BOI/UIC	939.3	688.5	6,090.5
COMM. BANKS' NET			
FOREIGN POSITION	-24.7	-651.3	-4,200.6
SUB-TOTAL	964.6	37.2	1,889.9
FOREIGN EXCHANGE			
ADJUSTMENT	20.9	-0.6	70.9
SURPLUS/DEFICIT	985.5	36.6	1,960.8

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1) INCLUDES GOLD STOCK REVALUATION OF \$1,020 MILLION IN THE PERIOD JANUARY-SEPTEMBER AND OF \$314 MILLION IN SEPTEMBER. EQUAL CONTINGENT LIABILITY INCLUDED IN "OTHER."

## 5. TABLE 2 -FOREIGN RESERVE POSITION (MILLIONS OF DOLLARS)

1976 1977

DEC 31 OCT 31 NOV 30

BOI/UIC

GOLD	9,320.5	10,348.7	10,348.7
CONV. FOR. EX.	3,132.0	7,512.4	8,148.4
OTHER (INCLUDING			
GOLD REVALUATION)1)	-12,372.0	-12,378.6	-12,326.1
TOTAL BOI/UIC	80.5	5,482.5	6,171.0
COMMERCIAL BANKS' NET			
FOREIGN POSITION	-3,011.0	-6,560.3	-7,211.6
TOTAL	-2,930.5	-1,077.8	-1,040.6

1) INCLUDES LIABILITIES TO EC, BUNDESBANK AND IMF.

6. TABLE 3 - EXTRAORDINARY TRANSACTIONS (MILLIONS OF DOLLARS)

	OCT 1-31	NOV 1-30	JAN 1-NOV 30
FIAT/LIBYA	-	-	306.0
IMF 1974 STANDBY	-	-	-828.5
IMF 1977 STANDBY	-	-	104.0
IMF GOLD TRANCHE	-	-	-290.9
BUNDESBANK GOLD LOAN	-	-	-236.0
EC LOAN	-	-	500.0
GOLD REVALUATIONS	-	-	1,019.6
EUROMARKET LOANS	-44.5	-172.8	-542.8

7. TABLE 4 - FOREIGN EXCHANGE AND MONEY MARKET RATES

	OCT 26	NOV 29	DEC 16
LIRA/\$ SPOT	880	877	876
LIRA/\$ 6 MONTH FORWARD	905	902	925

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LIRA/\$ BLACK MARKET	873	871	870
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BOI FX INDEX 1):

ALL CURRENCIES	-38.11	-38.47	-39.36
DOLLAR	-33.96	-33.76	-33.69

INTEREST RATES:

INTERBANK 3 MONTH	12.188	11.688	11.438'
LIRA/\$ 3 MONTH DISC.	6.4	6.4	11.9
"PRIME" RATE	17.00	17.00	16.00
AVERAGE BOND	14.637	14.495	14.441
EURODOLLAR 3 MONTH	7.125	7.125	7.25

' DECEMBER 12

1) WEIGHTED AVERAGE PERCENT DEPRECIATION SINCE 2/9/73  
(SECOND DOLLAR DEVALUATION)

8. TABLE 5 - MONETARY AND CREDIT AGGREGATES (RATES OF CHANGE IN PERCENT)

	1977		
	1Q	2Q	3Q
MONETARY BASE 1)			
RAW	2.9	2.0	3.5
SEASONALLY ADJUSTED	5.3	1.9	5.1
M1, SEASONALLY ADJUSTED 2)	6.6	3.4	4.6
M3, SEASONALLY ADJUSTED 3)	6.7	3.8	4.0
TOTAL DOMESTIC CREDIT	3.7	3.9	2.9

1) EXCLUDING POSTAL DEPOSITS.

2) CURRENCY IN CIRCULATION PLUS DEMAND DEPOSITS.

3. M1 PLUS SAVINGS DEPOSITS AND TREASURY BILLS IN HANDS  
OF NON-BANK PUBLIC. GARDNER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCIAL MARKETS, FINANCIAL TRENDS  
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**Copy:** SINGLE  
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**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
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**Disposition Remarks:**  
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**Drafter:** n/a  
**Enclosure:** ALSO FOR USOECD  
**Executive Order:** N/A  
**Errors:** N/A  
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**SAS ID:** 169361  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ITALIAN FINANCIAL MARKET DEVELOPMENTS (77-8)  
**TAGS:** EFIN, IT  
**To:** STATE TRSY MULTIPLE  
**Type:** TE  
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Declassified/Released  
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22 May 2009  
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